

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 IO-11 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 PA-02 PRS-01 L-03 H-02 /121 W

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 991

INFO AMEMBASSY CANBERRA

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E.O. 11652: N/A

TAGS: ECON, EFIN, ETRD, NZ

SUBJ: NEW GNZ MEASURES DESIGNED TO CURB IMPORTS AND
CONSUMPTION; INCREASE SAVINGS AND NEW PRIVATE
HOUSING INVESTMENT.

1. SUMMARY: AT 10.20. P.M. ON MARCH 2 PRIME
MINISTER MULDOON ANNOUNCED THE FIRST MINI-BUDGET
OF HIS ADMINISTRATION. TO FURTHER REDUCE IMPORT
DEMAND THE NEW MEASURES INCLUDE SUCH REQUIREMENTS
AS FULL CASH PAYMENT FOR PURCHASES OF NEW
AUTOMOBILES AND LIGHT TRUCKS, AND INCREASE OF
MINIMUM DOWN PAYMENT ON TV SETS FROM 10 PERCENT TO 60 PERCENT
AND A REDUCTION IN THE MAXIMUM PAYMENT PERIOD
FROM 30 TO 18 MONTHS. OTHER FINANCIAL MEASURES
ARE AIMED AT RESTORING THE ROLE OF THE PRIVATE
SECTOR (ESPECIALLY SAVINGS BANKS AND SIMILAR
INSTITUTIONS) AS A SOURCE OF HOUSING FINANCE
AND AT BRINGING A BALANCE BETWEEN THE DEMAND
FOR NEW HOMES AND AVAILABLE RESOURCES AND MAINTAINING
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ACTIVITY AND EMPLOYMENT IN THE BUILDING INDUSTRY.
TO STIMULATE SAVINGS AND HELP PROSPECTIVE BORROWERS

OBTAIN NEEDED FUNDS A MORE RATIONAL INTEREST RATE STRUCTURE HAS BEEN ADOPTED. THE FINANCIAL SYSTEM IS CHANGED TO ENABLE GREATER PARTICIPATION OF CENTRAL FINANCIAL INSTITUTIONS AND LESS DEPENDENCE ON THE UNCONTROLLED FRINGE NON-INSTITUTIONAL SOURCES. MONETARY POLICY IS TO BECOME A MORE EFFECTIVE INSTRUMENT OF ECONOMIC POLICY IS TO BECOME A MORE EFFECTIVE INSTRUMENT OF ECONOMIC POLICY THROUGH GREATER ABILITY TO CONTROL CREDIT AND MONEY.

THE PRESENT FARMING SECTOR DEPENDENCE ON PUBLICLY FUNDED AGENICES FOR THEIR SEASONAL AND DEVELOPMENT FINANCIAL NEEDS SHOULD SHIFT TO PRIVATE FINANCIAL INSTITUTIONS. END SUMMARY.

2. IN ADDITION TO MEASURES NOTED ABOVE OTHER SPECIFIC STEPS INCLUDE SUCH TIGHTER CONSUMER SPENDING CONTROLS AS DOUBLING THE ADVANCE PAYMENT ON TV RENTALS (A BIG BUSINESS IN NZ) FROM AN AMOUNT EQUAL TO 12 WEEKS TO 24 WEEKS AND DOUBLING TO 50 PERCENT OF THE CASH PRICE ADVANCE ON CAR LEASES. EXCEPT FOR RELIGIOUS MINISTERS, FARMERS, AND MANUFACTURING OR CONSTRUCTION BUSINESSES LOANS FOR CAR PURCHASES ARE PROHIBITED. MAXIMUM TIME PAYMENTS ON USED CAR PURCHASES IS REDUCED FROM 18 MONTHS TO 12 MONTHS.

3. TO FREE ABOUT \$28 MILLION FOR LOANS TO PROSPECTIVE HOME BUYERS RESERVE ASSETS RATIOS OF PRIVATE AND TRUSTEE SAVINGS BANKS WERE REDUCED, TO 72 PERCENT FOR THE FORMER AND BY 2 PERCENT TO 47 PERCENT FOR THE LATTER. BUT, THOUGH CERTAIN NEW MEASURES ARE DESIGNED TO FACILITATE THE SALE OF HOUSING CORPORATION RENTAL HOUSES, THE HOUSING CORPORATION PRIME LENDING RATE WAS INCREASED BY 2 PERCENT TO 7 1/2 PERCENT. CONCESSIONAL RATES OF 3 PERCENT WILL BE AVAILABLE TO THOSE MEETING THE LOW INCOME CRITERIA. THE INTERMEDIATE CONCESSIONAL RATE WAS UPPED 1 PERCENT TO 5 1/2 PERCENT.

4. POST OFFICE AND SAVINGS BANK INTEREST RATES ON INVESTMENT ACCOUNTS IS RAISED PROGRESSIVELY FROM 1 PERCENT
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(TO 5 1/2 PERCENT) ON 6 MONTHS ACCOUNTS, TO 1 1/2 PERCENT
(TO 8 PERCENT) ON 3 YEAR ACCOUNTS.

5. INTEREST ON NEW GOVERNMENT STOCK IS PROGRESSIVELY INCREASED FROM 1 PERCENT (TO 5 1/4 PERCENT) FOR SHORT-TERM TO 1 1/2 PERCENT (8 PERCENT) FOR LONG TERM 10 YEAR AND OVER STOCK. MAXIMUM INTEREST ON LOCAL BODY STOCK WITH A MINIMUM 10 YEAR TERM RISES TO 8 1/2 PERCENT (INCREASING TO 1/2 PERCENT THE AMOUNT THE LOCAL BODY RATE IS ABOVE THE GOVERNMENT STOCK RATE).

6. TREASURY BILLS RISE 1 PERCENT TO 4 PERCENT FOR 3 MONTHS
AND TO 4 1/2 PERCENT FOR 6 MONTHS.

7. THE INTEREST ON DEPOSIT REGULATIONS
INSTITUTED BY MULDOON AS MINISTER OF FINANCE IN 1972 ARE
REVOKED. THIS ENDS CONTROLS ON SHORT-TERM (UP TO 3 YEARS)
INTEREST RATES. CONTROLS ON OVERDRAFT RATES ARE ABOLISHED.
TERM DEPOSIT RATES FOR \$12,000 OR LESS FOR 3 YEARS
OR LESS IS LIMITED TO THE NEW MAXIMUM RATES PAYABLE
ON SAVINGS BANK INVESTMENT ACCOUNTS.

8. THOUGH THE NEW STANDARD RATE FOR FARM LOANS IS
7 1/2 PERCENT, CONCESSIONAL RATES OF 5 1/2 PERCENT WILL STILL
APPLY FOR THE FIRST THREE YEARS FOR FARMING DEVELOPMENT.

9. COMMENT: THIS MINI-BUDGET HAS INITIALLY
PROMPTED CRITICISM FROM DIFFERENT SECTORS
MOST DIRECTLY AFFECTED, PRIMARILY BECAUSE OF THE
PROSPECT OF INCREASED INTEREST COSTS FOR LOANS, E.G.
GREATER FARM OPERATING COSTS AND HIGHER MORTGAGE
FINANCE COSTS FOR HOME BUYERS ETC. THE FAR REACHING
MEASURE ON AUTOMOBILE SALES WILL UNDOUBTEDLY HAVE
CONSIDERABLE REPERCUSSIONS, NOT ONLY IN THE NZ
AUTOMOBILE INDUSTRY BUT IT CAN AFFECT ALSO NZ-AUSTRALIAN
TRADING RELATIONS. THE EMBASSY UNDERSTANDS THAT THOUGH
NAFTA OFFICIAL LEVEL TALKS WERE UNDER WAY IN LATE FEBRUARY
NO INKLING OF THESE PENDING MEASURES WERE INTIMATED BY GNZ
OFFICIALS.
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